

GENNUM CORPORATION

2000 ANNUAL REPORT

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BROADENING OUR VISION

AR67

GENNUM AT A GLANCE

10-YEAR FINANCIAL HIGHLIGHTS

(IN THOUSANDS OF DOLLARS)	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Revenue	106,536	93,615	83,497	61,522	53,496	42,317	33,204	27,492	26,050	23,777
Net Income	18,774	17,462	16,177	11,935	9,706	6,747	5,113	4,257	4,018	3,907
Return on Average Equity (%)	23.47	26.6	31.1	29.6	30.7	27.0	24.7	24.3	25.6	19.0
Net Income per Share	0.53	0.49	0.45	0.33	0.27	0.19	0.14	0.12	0.11	0.11
R&D Expense	17,986	15,013	14,620	12,393	10,148	8,523	7,809	7,422	6,990	5,374
Cash and Cash Equivalents	22,924	15,463	30,653	27,776	19,525	13,115	7,950	4,609	3,894	1,372
Capital Asset Expenditures	9,310	22,807	10,262	3,566	5,479	4,033	2,924	1,852	2,640	1,645
Total Assets	103,888	91,513	82,972	62,840	50,940	39,030	30,460	25,990	23,130	20,120
Working Capital	48,386	36,390	40,453	33,714	23,374	17,863	13,731	10,843	7,430	7,195
Shareholders' Equity	87,269	72,736	58,662	45,219	35,543	27,660	22,399	18,997	16,030	15,332
Number of Employees	491	451	392	325	292	264	247	240	233	219

COMMON SHARE DATA

(IN THOUSANDS EXCEPT PER SHARE DATA)	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Shares Outstanding	35,665	35,665	35,665	35,665	35,665	35,665	35,665	36,072	35,640	35,136
Market Data High (\$)	19.50	20.70	14.65	11.82	9.00	3.00	2.26	2.11	1.53	1.19
Low (\$)	11.75	13.40	8.42	7.90	3.00	2.14	1.75	1.49	0.94	0.49
Share Volume	9,599	9,780	7,587	10,704	6,336	10,089	4,329	9,279	7,110	6,777
Shareholders' Equity per Common Share (\$)	2.45	2.04	1.64	1.27	1.00	0.78	0.63	0.53	0.45	0.44

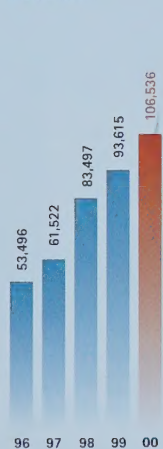
CORPORATE PROFILE

Gennum Corporation is a Canadian, high technology company that designs, manufactures and markets silicon integrated circuits (ICs) and modules, as well as thin-film hybrid microcircuit components, for a variety of applications.

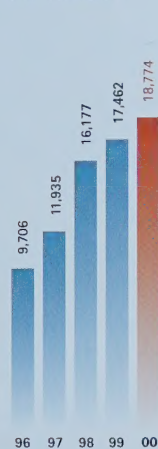
Gennum's skilled and dedicated employees share a commitment to excellence as they serve an international customer base from the Company's headquarters in Burlington, Ontario and through subsidiaries in Japan and the United Kingdom.

Founded in 1973, Gennum Corporation has a history of consistent, profitable growth.

REVENUE



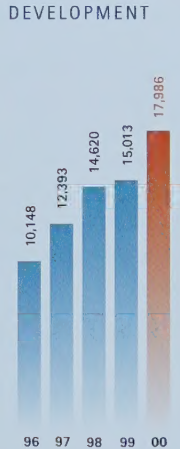
NET INCOME



CAPITAL
EXPENDITURES



RESEARCH AND
DEVELOPMENT



NET INCOME
PER SHARE



(ALL AMOUNTS IN THOUSANDS OF DOLLARS EXCEPT PER SHARE DATA)

MESSAGE TO SHAREHOLDERS

Fiscal 2000 was a year of significant change for Gennum. It was also a profitable year in line with 1999 results, although growth continued to be below historical levels. As a result, we took significant steps to grow our strong existing business and to broaden our vision of Gennum's future.

Our goal – to lay the groundwork for accelerated profitable growth in the years ahead.

YEAR IN REVIEW

Strong New Business Structure • We reorganized Gennum along our lines of business, allowing us to better focus on the unique needs of customers in each market. We also created a team-based accountability structure that equips us to make faster and smarter decisions.

Increasing Production Capacity • The opening of our new manufacturing facility in Burlington in September 1999, has increased our production capacity, and will position Gennum to take on an increasing level of business.



Ian McWalter
President & Chief Executive Officer

Pierre Choquette
Chairman of the Board

SENIOR MANAGEMENT TEAM



Gora Ganguli
Vice President &
General Manager
Hearing Instrument
Products

Alan Murray
Vice President
Human Resources

David Lynch
Vice President &
General Manager
Video Products

Peter Bloch
Vice President, Finance
and Administration &
Chief Financial Officer

Ian McWalter
President &
Chief Executive Officer

Michael Fielding
Executive Vice President &
Chief Operating Officer

Research and Development • In today's fast-changing economy, initiative and ingenuity are essential elements of success. In 2000, we renewed our focus on R&D, ramping up spending to approximately 17 per cent of sales. This aggressive program is focused on developing new and more complex products, for existing as well as new markets.

Rewarding Innovation • Because our business depends on leadership in technology and applications, a highly skilled and experienced employee base is essential to Gennum's evolution. In keeping with our strategic direction, our approach to encouraging and rewarding innovation also changed during the year. We introduced a new stock option plan and made improvements to our existing competitive compensation and incentive plans with the aim of sustaining the ideas, capital and talent necessary to drive our research and development program. We have a retention rate that is significantly above average for our industry, and are better equipped than ever to pursue our growth objectives.

Maintained Market Leadership • We continued to be a leading supplier of microcircuit components to virtually all of the world's manufacturers of hearing instruments.

We also advanced our leading position in the video products market, growing revenue by approximately 20 per cent. Over the course of the year, we continued the rollout of *HD-LINX™*, our product line designed for high definition television (HDTV) systems. HDTV is an all-digital TV broadcast signal that delivers a high resolution, high quality, wide-screen picture.

POSITIONING FOR THE FUTURE

Traditional Markets • We remain committed to growing Gennum's share of the video and hearing instrument products markets. Our high-speed transmission and unique multi-chip packaging competencies translate into solutions with flexibility and maximum functionality, which gives us a strong competitive edge.

In the video products arena, during 2000 we were successful in winning many opportunities with key video manufacturers. This will be a key driver of growth for Gennum over the next 18 to 24 months. Opportunities lie in the continuing conversion of content from analog to digital television in North America, and in the growth of HDTV, particularly in Japan. We expect demand for HDTV solutions to increase worldwide as regulatory hurdles are cleared and formats are standardized. Additionally, consumers are demanding better quality pictures.

Gennum is already leading the way. We are working closely with leading video equipment companies to develop new HDTV solutions, which will lead to higher levels of integration, additional features and lower power consumption.

On the hearing instrument products front, demand for more sophisticated solutions is increasing. The digital product segment, in particular, offers significant growth potential within the hearing market. Currently, about 20 per cent of all hearing instruments are digital. In five years, this number is expected to exceed 50 per cent.

Gennum is positioning to capitalize on this growth. We are working to bring new digital products to market in 2001. While this will not impact sales until the second half of the year, we see excellent opportunities for capturing new business and for long-term growth in this market. We will also continue to serve the analog product market, which we expect will remain considerable for many years to come.

New Markets • Securing our future prosperity requires that we focus on applying the competencies developed in our core businesses in new fields, such as data communications.

In 2000, we became a member of the 10 Gigabit Ethernet Alliance. We also actively participated in Task Group T11.2, which is developing specifications for higher speed Fiber Channel interconnects.

Key to our growth strategy is continued investment in R&D, and in fiscal 2001 we are targeting spending in the range of 20 per cent of sales. Our aggressive program will allow us to increase product output, design more complex products, reduce cycle times and attract and retain the skilled personnel we need to fuel growth.

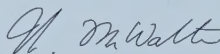
Our Vision • Tomorrow's Gennum will have as its foundation the knowledge, technology and products that drive its business today. The new organization will be more aggressive, with a fresh mindset and different business mix. Five years from now, we aim to:

- achieve growth that is double the current rate;
- emerge as a well-established provider to the high-speed datacom market; and
- lead our markets for HDTV and digital hearing instrument products.

Thanks to Stakeholders • Our appreciation is extended to our customers for their loyalty and support, to our employees for their dedication and hard work, and to our suppliers for their continued co-operation.

The Gennum team would also like to express its sincere appreciation and heartfelt thanks to Patrick Thode, former Chairman of the Board, and Douglas Barber, former President and CEO. Their contributions to Gennum have been immense.

We remain committed to delivering increasing shareholder value in the years ahead.



Ian McWalter
President & Chief Executive Officer

CORE COMPETENCIES

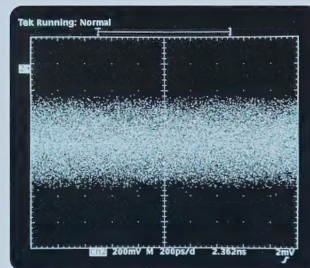
Distinguishing Gennum as a leader in the semiconductor industry are four core competencies.

High-Speed Transmission • Gennum is a leader in the high-speed transmission of serial video data over copper wire. As an active participant in industry organizations such as SMPTE (Society of Motion Picture and Television Engineers) and IEEE (Institute of Electrical and Electronics Engineers), we have played a key role in defining standards for interoperability and quality.

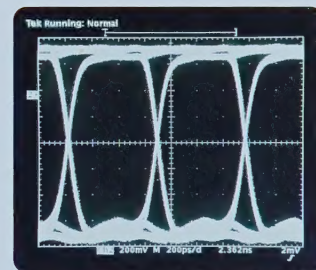
We have developed and refined our leading-edge technology over many years, continuously increasing the speed of our products. Today, some of our newest products permit equipment communications in digital television facilities using 1.485 gigabit per second bit-serial interconnects. We are also continuing to work on even higher speed applications in the multi-gigabit-per-second range.

We have matched these advancements in transmission speed with refinements in performance. Gennum excels in signal recovery technology, which allows video bit streams to be sent over long distances within a studio without loss or the need for regeneration.

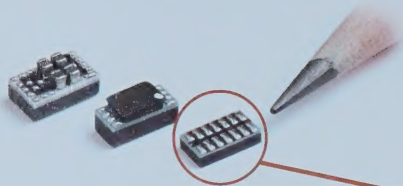
While a number of companies may work at similar speeds, very few focus on video transmission. The unique skills that are involved in dealing with the very high-speed, real-time challenges of video signals positions us to handle the increasingly complex, media-rich content of future networking.



Oscilloscope view of an HDTV signal after it has travelled through a considerable length of cable. The integrity of the signal has been lost.



Oscilloscope view of an HDTV signal once it has been processed through Gennum's equalizer and reconstructed to its original format.



Hybrid components range from the larger, thicker components developed a number of years ago, to the newest generation module that is smaller, thinner and possesses significantly greater capability.

(shown at twice the actual size)



Cross-section of a hybrid product that contains five different components. Multi-chip packaging supports increased functionality and miniaturization necessary for sophisticated applications such as the DSP completely-in-the-canal hearing instrument.

Multi-Chip Packaging • Since inception, Gennum has been a leading provider of ICs to the hearing instrument products market. The evolution of this industry has been driven by consumer demand for increasingly small hearing instruments, with ever increasing sophistication in performance, as well as by the sweeping digitization of all electronic environments. As a result, manufacturers of hearing instruments are continuously pressed to deliver greater functionality in ever-smaller packages, and in digital format.

Gennum's advanced multi-chip packaging competency uniquely positions us to meet these exacting requirements. We have developed specialized technology that allows the combination of active and passive components into modules that not only surpass size benchmarks, but also operate effectively in environments where there is high humidity. The result is an incredibly small, highly reliable multi-chip module. This capability can be extended to other applications with constrained space requirements.

Low Power • Gennum's sophisticated signal processing schemes consume extremely low levels of power. One of the key challenges of developing hearing instruments is the need to operate the system on a one-volt battery without constantly replacing that battery. In fact, these systems must operate continuously for a week on less energy than the average cellular phone consumes in six minutes. Gennum's expertise in this area is unique and world class.

Market Focus • Gennum's core markets have distinct needs that are not well served by general-purpose solutions. In video content creation, for example, there are a vast array of formats and standards that must be transmitted, replicated and converted in a loss-less manner. For hearing instruments, signals must be amplified and processed in a very sophisticated way, under ultra-low power and voltage conditions.

A great part of our success in these markets is due to our intimate knowledge of the problems that our customers' systems are trying to solve. By focusing on the application, Gennum creates solutions that provide tangible value today and recognize the needs of tomorrow.

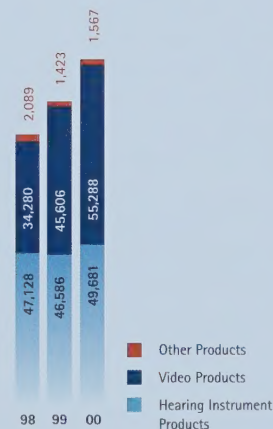
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and accompanying notes.

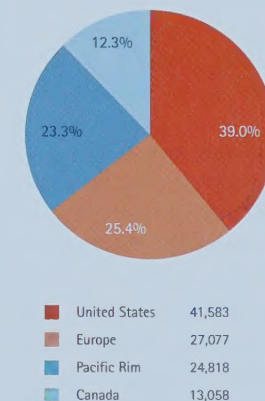
This document may contain forward-looking statements, relating to the operations or to the environment in which we operate, which are based on our operations, estimates, forecasts and projections. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict, and/or are beyond our control. A number of important factors could cause actual outcomes and results to differ materially from those expressed in these forward-looking statements. These factors include those set forth in this report and other public filings. Consequently, readers should not place any undue reliance on such forward-looking statements. In addition, these forward-looking statements relate to the date on which they are made.

We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PRODUCT REVENUE



GEOGRAPHIC SALES



ALL AMOUNTS IN THOUSANDS OF DOLLARS

OVERVIEW

Gennum Corporation, a Canadian high technology company, designs, manufactures and markets silicon integrated circuits (ICs) and modules and thin-film hybrid circuits for a variety of applications. Close to 500 skilled employees serve an international blue-chip customer base from offices in Burlington and Ottawa, Canada, and through subsidiaries in the United Kingdom and Japan.

The Company is organized and managed as a single business segment, being the design and manufacture of electronic components, primarily silicon integrated circuits and thin-film hybrid circuits. Our existing offering includes products for the video and hearing instrument markets.

Video Products • As a component supplier, we serve the manufacturers of video equipment and systems for broadcast television content creation and distribution. The equipment and its components must meet the industry's highest performance standards, as content must be originated at the highest quality level possible. Our product lines include *GENLINX™* and *HD-LINX™* for sending and receiving video signals, and *MultiGEN™* which makes possible the processing and conversion of video content.

The move towards high definition television (HDTV) capability in broadcast television studios is fueling Gennum's growth and development activity. This trend, which is driven by both the digitization of video content creation and demand from consumers for an improved viewing experience, benefits both program producers and equipment suppliers alike.

Hearing Instrument Products • We supply semiconductor components to virtually all of the world's manufacturers of hearing instruments. These instruments help people suffering from hearing loss. We produce about 140 different integrated circuits for this industry, ranging from single-function ICs to complex miniaturized modules containing a number of ICs coupled with other passive electronic parts. We have capability in micro-power chip design and multi-chip miniaturized packaging. Hearing instruments are becoming more sophisticated and are small enough to fit unobtrusively in the ear canal.

RESULTS OF OPERATIONS

Revenue • For the fiscal year, revenue increased 13.8% to \$106.5 million from \$93.6 million last year. In 1999, revenue increased by 12.1% from 1998 revenue of \$83.5 million.

Product Revenue • Revenue of video products increased 21.3% to \$55.3 million from \$45.6 million last year. In 1999, revenue increased by 32.9% from revenue of \$34.3 million in 1998. Strong demand from broadcasters for equipment used to create digital content, as well as our significant share in HDTV studio infrastructure equipment drove revenue increases in 2000. Video products represented 51.9% of our revenue (48.7% in 1999 and 41.1% in 1998). In the past few years, growth in video product revenue exceeded hearing instrument products.

Hearing instrument product revenue increased 6.9% to \$49.7 million from \$46.5 million in the previous year, reflecting continued flat demand in the market worldwide for analog hearing components. Revenue in 1999 declined by 1.3% from revenue of \$47.1 million in 1998. Revenue from hearing instrument products was 46.7% of total sales in 2000 (49.8% in 1999 and 56.4% in 1998).

Revenue of our other products increased by 10.1% to \$1.6 million in 2000, and contributed 1.5% to our overall revenue. Revenue in 1999 declined by \$0.7 million from revenue of \$2.1 million in 1998.

Geographic Revenue • The geographic mix of revenue for 2000 was 39.0% (36.9% in 1999, and 40.8% in 1998) from the U.S., 25.4% (24.8% in 1999, and 22.8% in 1998) from Europe, 23.3% (26.2% in 1999, and 23.6% in 1998) from the Pacific Rim, and 12.3% (12.1% in 1999, and 12.8% in 1998) from Canada. Revenue from the U.S. grew 20.3% (1.5% in 1999), from Europe 16.4% (22.1% in 1999), and revenue from the Pacific Rim increased only 1.1% after significant growth of 24.6% in 1999. Revenue in Canada increased by 16.1% (5.0% in 1999).

Operating Expenses Excluding R&D • Expenses (including cost of sales and excluding R&D) as a percentage of revenue increased to 60.0% in 2000 from 58.2% in 1999. In 1998, these expenses were 57.4% of revenue.

The increase of operating expenses in 2000 resulted from a combination of the following three factors:

- Sales and marketing expenses increased by 26.9% as we continued to develop the sales and marketing capacity in the Japanese and U.K. subsidiaries.
- Gross margin was impacted by costs associated with our transition to the new manufacturing facilities. These were one-time costs that will not recur in 2001.
- We earned an exchange gain of \$1.0 million during the year, mainly as a result of the weakening Canadian dollar against the U.S. dollar. In 1999, a foreign exchange loss of \$0.7 million was recorded.

Research and Development Expenditures • Investment in R&D in 2000 was 16.9% of revenue, up from 16.0% in 1999 and down from 17.5% in 1998. The investment increased 19.8% to \$18.0 million from \$15.0 million last year and by 2.7% in 1999, up from \$14.6 million in 1998. In 2000, we focused on increasing product development capacity by hiring additional designers and adding design automation software to improve product development efficiency.

Income Taxes • Income taxes of \$10.8 million in 2000 were 36.5% of income before taxes, down from 38.5% in 1999 and 37.0% in 1998. The 2000 reduction in income taxes resulted from reduced corporate taxes in Japan and the U.K. The effective tax rate of 42% in Japan is higher than the effective tax rate of 36% in Canada and 30% in the U.K.

Net Income • Net income for the year was \$18.8 million or \$0.53 per share compared with \$17.5 million or \$0.49 per share in fiscal 1999, and \$16.2 million or \$0.45 per share in 1998. Net income in 2000 increased by 7.4% over the prior year. 1999 net income increased by 7.9% over 1998. Net income as a percentage of sales was 17.6% in 2000, down from 18.7% in 1999. In 1998 net income was 19.4% of sales.

LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Equivalents • We concluded the year with a debt-free balance sheet. Cash and cash equivalent balances increased 48.3% to \$22.9 million from \$15.5 million in 1999 and \$10.6 million in 1998. In 2000, cash provided by operating activities increased 81.7% to \$20.9 million from \$11.5 million in 1999. Cash provided by operating activities was \$16.4 million in 1998.

Accounts Receivable • Accounts receivable at year-end increased 11.0% to \$14.3 million from \$12.9 million in 1999, but decreased by 8.5% from \$14.1 million in 1998. In 2000, careful management of accounts receivable, as well as lower sales in the last quarter, resulted in accounts receivable, measured in days sales outstanding, reducing by two days over the prior year.

Inventories • Inventories increased just 3.0% to \$24.7 million, despite a 13.8% increase in sales. The increase in inventories in 2000 was allowed to ensure continuity of supply while a key supplier moved to a new production facility. Inventories in 1999 of \$23.9 million increased by 45.3% from 1998 in preparation of the move of Gennum's manufacturing groups into its new facility. Year-end 2000 inventory balances as a percentage of sales were 23.1%, in 1999, 25.6%, and in 1998, 19.7%.

Accounts Payable and Accrued Liabilities • The company annually accrues amounts required to meet its obligations under its profit sharing and incentive plans. The amount accrued for the profit sharing and incentive plan was \$8.0 million in 2000, \$7.7 million in 1999 and \$10.5 million in 1998. These amounts are paid out in the first part of the subsequent year. Accounts payable and accrued liability balances at the end of the fiscal year reflect accruals for these obligations.

Capital Expenditures • Capital additions during 2000 amounted to \$9.3 million, down from \$22.8 million in 1999 and \$10.3 million in 1998. In 1999, capital costs of \$15.1 million were incurred to complete the new manufacturing and research and development facility.

Capital expenditures in 2000 related primarily to the upgrading of our R&D design tools to improve product development efficiency and to upgrade manufacturing equipment in assembly, thin film and silicon operations. All capital acquisitions were funded by cash flow from operations.

Dividends • In 2000, we paid a dividend of \$4.1 million, or \$0.12 per share, an increase of 21.0% from 1999. In 1999, we paid a dividend of \$3.4 million, an increase of 23.9% from 1998.

RISKS AND UNCERTAINTIES

Our company is subject to a number of risks that can significantly impact future financial performance. We have a comprehensive planning process where risks are identified and plans initiated to minimize risks wherever possible. Key risks for the Company, among others, include:

Dependence on Timely Introduction of New Products • Revenue and customer loyalty depends, to a significant extent, on our ability to develop new products, and to continuously introduce new and enhanced generations of products consistent with customers' needs.

Reliance of Foundries and ASIC Providers • We currently rely on external foundries and ASIC (Application Specific Integrated Circuit) providers to make certain products.

Reliance on Key Employees • Our future success is dependent on key employees. Competition in our industry for high-level and competent engineering, marketing and sales staff, and executive management is intense. There is no assurance that the Company will be able to retain existing personnel, or attract, hire and retain additional qualified personnel. The loss of certain key employees, or the inability to hire and retain additional key employees could impact our business.

Foreign Exchange • We are exposed to foreign currency rate fluctuations as revenue is earned in U.S. dollars, Japanese yen and U.K. sterling. Expenses are incurred mainly in Canadian dollars, but also in U.S. dollars, Japanese yen and U.K. sterling.

OUTLOOK

In 2001 and beyond, we will continue to build on our already strong base in our traditional core markets, leveraging our four core competencies:

- high speed transmission capabilities for digital television content;
- unique miniaturized, multi-chip packaging technology;
- ultra low power capability for hearing applications; and
- our ability to tailor solutions to the specialized needs of our markets.

In the video market, we are positioned to capitalize on the continuing conversion of content from analog to digital television, as well as the growth of HDTV.

In the hearing instrument market, we plan to introduce a new line of digital products in the first part of 2001, although sales will not be significant until the second half of 2001.

To achieve new levels of performance, we are leveraging our competencies in new areas. Driving our push into new markets is aggressive R&D spending, targeting in the range of 20.0% of sales in 2001.

With a strong record of profitable growth, a focused growth strategy and a committed management team, we are confident about the outlook for Gennum Corporation.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Gennum Corporation and the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis to ensure that the financial statements are presented fairly in all material respects. Management has prepared the financial information presented elsewhere in the annual report, and has ensured that it is consistent with the financial statements.

Gennum Corporation maintains systems of internal accounting and administrative controls of high quality. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting, and the Board is ultimately responsible for reviewing and approving the financial statements.

An Audit Committee is appointed by the Board and all of its members are outside directors. The Committee meets periodically with management, as well as with the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, and to review the annual financial statements. The Committee reports its findings to the Board of Directors for consideration in approving the financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with auditing standards generally accepted in Canada, on behalf of the shareholders. Ernst & Young LLP has full and free access to the Audit Committee.



Ian McWalter
President & Chief Executive Officer



Peter Bloch
Vice President, Finance and Administration
& Chief Financial Officer

CONSOLIDATED FINANCIAL STATEMENTS

AUDITORS' REPORT

To the Shareholders of Gennum Corporation • We have audited the consolidated balance sheets of **Gennum Corporation** as at November 30, 2000 and 1999 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at November 30, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.

Ernst + Young LLP

CHARTERED ACCOUNTANTS

HAMILTON, CANADA
DECEMBER 14, 2000


CONSOLIDATED BALANCE SHEETS

As at November 30

(IN THOUSANDS OF DOLLARS)		2000	1999
Assets			
Current			
Cash and cash equivalents		22,924	15,463
Accounts receivable		14,255	12,907
Inventories (NOTE 2)		24,650	23,933
Prepaid expenses and other assets		1,697	2,099
Income taxes receivable		381	—
Total current assets		63,907	54,402
Capital assets (NOTE 3)		39,981	37,111
		103,888	91,513
Liabilities and Shareholders' Equity			
Current			
Accounts payable and accrued liabilities		15,521	15,184
Income taxes payable		—	2,828
Total current liabilities		15,521	18,012
Deferred income taxes		1,098	765
Shareholders' equity			
Capital stock (NOTE 4)		6,994	6,994
Retained earnings		80,415	65,742
Currency translation adjustment		(140)	—
Total shareholders' equity		87,269	72,736
		103,888	91,513

SEE ACCOMPANYING NOTES

ON BEHALF OF THE BOARD



Ian McWalter
DIRECTOR



Pierre Choquette
DIRECTOR

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Years Ended November 30

(IN THOUSANDS OF DOLLARS)	2000	1999
Revenue (NOTE 5)	106,536	93,615
Investment income	777	892
	107,313	94,507
Expenses excluding amounts shown below	63,951	54,460
Research and development expense	17,986	15,013
Less government assistance	(4,199)	(3,346)
	77,738	66,127
Income before income taxes	29,575	28,380
Income taxes (NOTE 6)	10,801	10,918
Net income for year	18,774	17,462
Retained earnings, beginning of year	65,742	51,668
Dividends	(4,101)	(3,388)
Retained earnings, end of year	80,415	65,742
Per common share		
Net Income	0.53	0.49
Dividends	0.12	0.09

SEE ACCOMPANYING NOTES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended November 30

(IN THOUSANDS OF DOLLARS)	2000	1999
Operating Activities		
Net income for year	18,774	17,462
Items not affecting cash		
Amortization	6,436	5,032
Deferred income taxes	333	(364)
	25,543	22,130
 Net change in non-cash working capital balances related to operations (NOTE 8)	 (4,652)	 (10,624)
Cash provided by operating activities	20,891	11,506
 Investing Activities		
Expenditures on capital assets	(9,310)	(22,807)
Short-term investments	—	20,024
Cash used in investing activities	(9,310)	(2,783)
 Financing Activity		
Dividends	(4,101)	(3,388)
Effect of exchange rate changes on cash and cash equivalents	(19)	(501)
 Increase in cash and cash equivalents during year	 7,461	 4,834
Cash and cash equivalents at beginning of year	15,463	10,629
Cash and cash equivalents at end of year	22,924	15,463

SEE ACCOMPANYING NOTES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2000 and 1999

NOTE 1 SUMMARY OF ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and within the framework of the accounting policies summarized below:

Revenue recognition • Revenue from sales of products is recognized when title passes to customers, which is generally at the time goods are shipped.

Principles of consolidation • These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Gennum Japan KK and Gennum UK Limited. All significant inter-company transactions have been eliminated.

Cash and cash equivalents • Cash and cash equivalents include cash on deposit and term deposits with remaining maturities of less than three months at acquisition.

Translation of foreign currencies • Monetary assets and liabilities of the Company denominated in foreign currencies are translated at year-end exchange rates. Revenue and expenses are translated at actual rates of exchange when the transaction occurred. Exchange gains and losses on these items are recognized in earnings in the current year.

Prior to the current year, both subsidiaries were considered to be integrated operations, and accordingly, the monetary assets and liabilities, both current and long term, were translated at current rates of exchange, and non-monetary assets and liabilities were translated at historic rates of exchange. Sales and expenses were translated at average rates of exchange for the year, except for amortization which was translated at rates in effect when the related assets were acquired. Gains and losses on translation were included in earnings.

At the beginning of the current year, management reviewed the classification of its foreign operations and determined that, as a result of sustained profitability and the generation of positive cash flows, the foreign operations are financially and operationally independent of their parent. Accordingly, the assets and liabilities are translated to Canadian dollars using the year-end exchange rates, and revenue and expenses are translated at the average rates during the year. Exchange gains or losses on translation of the Company's net equity investment in these operations are deferred as a separate component of shareholders' equity.

The appropriate amounts of exchange gains or losses accumulated in the separate component of shareholders' equity are reflected in income when there is a reduction in the Company's net investment in the operations that gave rise to such exchange gains and losses.

Inventories • Inventories are recorded at the lower of cost and net realizable value. Inventory cost is based on average cost and includes material, labour, and manufacturing overhead where applicable.

Capital assets • Capital assets are recorded at cost, net of related government assistance.

Buildings are amortized using the straight-line method over estimated useful lives of 20 years. Machinery and equipment are amortized using the straight-line method over estimated useful lives ranging from three to seven years.

Government assistance • The Company makes periodic applications for financial assistance under available government incentive programs including investment tax credits. Government assistance relating to capital expenditures is reflected as a reduction of the cost of such assets. Government assistance relating to research and development expense is recorded as a reduction of expenses when the related expenditures are incurred.

Income taxes • Income tax regulations permit the Company to deduct certain costs relating to capital assets at different rates than are reflected in its accounts. The tax effect of these timing differences is recognized in the accounts as deferred income taxes.

Stock-based compensation plan • No compensation expense is recognized for stock options granted under the Company's Stock Option Plan. Consideration paid on the exercise of stock options is credited to capital stock.

Income per common share • Net income per common share is based on the monthly weighted average number of common shares outstanding during the years.

Use of estimates • The preparation of the consolidated financial statements, in conformity with accounting principles generally accepted in Canada, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 2 INVENTORIES

(IN THOUSANDS OF DOLLARS)	2000	1999
Raw materials and supplies	6,301	7,724
Work in process	12,023	9,490
Finished goods	6,326	6,719
	<u>24,650</u>	<u>23,933</u>

NOTE 3 CAPITAL ASSETS

(IN THOUSANDS OF DOLLARS)	2000	1999
Land	1,158	1,158
Buildings	29,463	28,624
Machinery and equipment	47,655	38,153
Construction in progress	1,682	2,718
	<u>79,958</u>	<u>70,653</u>
Less accumulated amortization		
Buildings	7,432	5,891
Machinery and equipment	32,545	27,651
	<u>39,977</u>	<u>33,542</u>
	<u>39,981</u>	<u>37,111</u>

The cost of machinery and equipment additions for 2000 is reduced by government assistance of \$668,000 (\$215,000 in 1999).

The estimated amount required to complete authorized capital projects is \$8.8 million at November 30, 2000. The majority of these expenditures are expected to be incurred over the next 18 months.

NOTE 4 CAPITAL STOCK

The issued common shares of the Company as at November 30, 2000 and 1999 consist of 35,664,624 common shares at a stated value of \$6,994,000.

During the year, the Board of Directors established a Stock Option Plan. Under the plan, the Company may grant options to purchase common shares to full-time employees of the company or its subsidiaries. The maximum number of shares that can be reserved for issuance under the plan is 1,750,000 shares. All options are granted for a term of seven years from the grant date with vesting of 25.0% at the end of the first, second, third and fourth years from the date of grant, respectively. All options allow the holder to purchase common shares at a price equal to the market price of such shares at the date of grant.

A summary of the plan and changes during the year are as follows:

	Shares	Weighted Average Exercise Price \$
Outstanding, beginning of year	—	—
Granted	408,250	13
Exercised/forfeited	—	—
Outstanding, end of year	<u>408,250</u>	<u>13</u>
Options exercisable at year end	—	—

NOTE 5 SEGMENTED INFORMATION

The Company is organized and managed as a single business segment, being the design and manufacture of electronic components, primarily silicon integrated circuits and thin-film hybrid circuits, for specialized applications.

Canadian and foreign operations consist of:

(IN THOUSANDS OF DOLLARS)	2000			1999		
	Canada	Foreign	Total	Canada	Foreign	Total
Revenue						
Domestic	13,058	28,368	41,426	11,246	25,571	36,817
Export	83,574	—	83,574	73,182	—	73,182
	96,632	28,368	125,000	84,428	25,571	109,999
Inter-company eliminations	(18,464)	—	(18,464)	(16,384)	—	(16,384)
Total revenue	78,168	28,368	106,536	68,044	25,571	93,615
Capital assets	39,927	54	39,981	37,050	61	37,111

Revenue by product group is as follows:

(IN THOUSANDS OF DOLLARS)	2000	1999
Hearing instrument components	49,681	46,586
Video components	55,288	45,606
Other components	1,567	1,423
	106,536	93,615

Revenue by principal market is as follows:

(IN THOUSANDS OF DOLLARS)	2000	1999
United States	41,583	34,570
Europe	27,077	23,256
Pacific Rim	24,818	24,543
Canada	13,058	11,246
	106,536	93,615

NOTE 6 INCOME TAXES

Income tax expense consists of:

(IN THOUSANDS OF DOLLARS)	2000	1999
Current taxes	10,468	11,282
Deferred taxes	333	(364)
	10,801	10,918

The Company's effective tax rate on its income from operations consists of the following:

(PER CENT)	2000	1999
Corporate tax rate for manufacturing companies in Ontario	36.0	36.0
Impact of foreign income tax rate differentials	0.5	2.5
	36.5	38.5

NOTE 7 GOVERNMENT ASSISTANCE

Under the terms of the Microelectronics and System Development Program, the Government of Canada has reimbursed the Company \$1,929,000 in prior years, representing a portion of eligible research and development expenditures incurred. The grant is repayable as a royalty based on 2% of the related sales through the year 2003. The aggregate amount repayable to date is \$1,516,000 (\$1,302,000 as at November 30, 1999). Of this amount, \$1,377,000 has been repaid, and \$139,000 is included in accounts payable and accrued liabilities.

NOTE 8 NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES RELATED TO OPERATIONS

(IN THOUSANDS OF DOLLARS)	2000	1999
Accounts receivable	(1,474)	1,334
Inventories	(726)	(7,325)
Prepaid expenses and other assets	400	302
Accounts payable and accrued liabilities	362	(4,630)
Income taxes payable / receivable	(3,214)	(305)
	(4,652)	(10,624)

During the year, the Company made income tax payments of \$ 13,670,000 (1999 - \$12,075,000).

CORPORATE INFORMATION

DIRECTORS

- **H. Douglas Barber, PhD**
Retired
- **Marcel Bernard**
Private Investor
- **Pierre Choquette**
President
& Chief Executive Officer
Methanex Corporation
- **Robert A. Ferchat, FCA**
Corporate Director
- Ian L. McWalter, PhD**
President
& Chief Executive Officer
Gennum Corporation
- **Waldemar A. Pieczonka, PhD**
Retired
- **Stephen R. Scotchmer**
Private Investor
- **H. Patrick Thode, CA**
Private Investor

● MEMBER OF THE AUDIT COMMITTEE

★ MEMBER OF THE CORPORATE
GOVERNANCE COMMITTEE

■ MEMBER OF THE HUMAN
RESOURCE COMMITTEE

OFFICERS

Pierre Choquette
Chairman

Ian L. McWalter, PhD
President
& Chief Executive Officer

Michael R. Fielding
Executive Vice President
& Chief Operating Officer

Peter D. Bloch, CA
Vice President
Finance and Administration
& Chief Financial Officer

Gora Ganguli
Vice President
& General Manager
Hearing Instrument Products

David L. Lynch
Vice President
& General Manager
Video Products

Alan D. Murray
Vice President
Human Resources

Paul D. Paradis
Ross & McBride
Secretary

SHAREHOLDER INFORMATION

Auditors
Ernst & Young LLP

Bankers
Canadian Imperial
Bank of Commerce

Legal Counsel
Ross & McBride

Stock Listing
The Toronto Stock Exchange

Trading Symbol
GND

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& Registrar**
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Calgary, Alberta
Regina, Saskatchewan
Winnipeg, Manitoba
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SHAREHOLDERS' MEETING

The Annual and Special General Meeting of the Shareholders of Gennum Corporation will be held at The Burlington Conference Centre, 5420 North Service Road, Burlington, Ontario on the 18th day of April, 2001 at 4:30 pm.

FOR FURTHER INFORMATION,
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